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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

2013 JUN -6 P 4 52

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING TO
INSTALL A WATER LINE FROM THE WELL
ON TIEMAN TO WELL NO. 1 ON TOWERS.

DOCKET NO. W-04254A-12-0204

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING TO
PURCHASE THE WELL NO. 4 SITE AND THE
COMPANY VEHICLE.

DOCKET NO. W-04254A-12-0205

IN THE MATTER OF THE APPLICATION OF
MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF FINANCING FOR AN
8,000-GALLON HYDRO-PNEUMATIC TANK.

DOCKET NO. W-04254A-12-0206

IN THE MATTER OF THE RATE APPLICATION
OF MONTEZUMA RIMROCK WATER
COMPANY, LLC.

DOCKET NO. W-04254A-12-0207

JOHN E. DOUGHERTY,

COMPLAINANT,

V.

MONTEZUMA RIMROCK WATER COMPANY,
LLC,

RESPONDENT.

DOCKET NO. W-04254A-11-0323

Arizona Corporation Commission

DOCKETED

JUN 07 2013



1
2 IN THE MATTER OF THE APPLICATION OF
3 MONTEZUMA RIMROCK WATER COMPANY,
LLC FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. W-04254^A-08-0361

4 IN THE MATTER OF THE APPLICATION OF
5 MONTEZUMA RIMROCK WATER COMPANY,
6 LLC FOR APPROVAL OF A FINANCING
7 APPLICATION.


DOCKET NO. W-04254A-08-0362

NOTICE OF FILING

STAFF'S RESPONSIVE TESTIMONY

8
9 Staff of the Arizona Corporation Commission ("Staff") hereby files the Responsive
10 Testimony of Gerald W. Becker, in the above-referenced matter.

11 RESPECTFULLY SUBMITTED this 6th day of June, 2013.

12
13 
14 Charles H. Hains
15 Wesley C. Van Cleve
16 Attorneys, Legal Division
17 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

18 Original and thirteen (13) copies
19 of the foregoing filed this
20 6th day of June 2013, with:

21 Docket Control
22 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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25 ...

26 ...

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28 ...

1 Copy of the foregoing EMAILED this
2 6th day of June, 2013, to:


3 Todd C. Wiley - twiley@fclaw.com
4 Patricia Olsen - patsy@montezumawater.com
5 John E. Dougherty, III -
6 jd.investigativemedia@gmail.com

7 Copy of the foregoing mailed this
8 6th day of June 2013, to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) MONTEZUMA RIMROCK WATER COMPANY,) LLC FOR APPROVAL OF FINANCING TO) INSTALL A WATER LINE FROM THE WELL) <u>ON TIEMAN TO WELL NO. 1 ON TOWERS)</u>	DOCKET NO. W-04254A-12-0204
IN THE MATTER OF THE APPLICATION OF) MONTEZUMA RIMROCK WATER COMPANY,) LLC FOR APPROVAL OF FINANCING TO) PURCHASE THE WELL NO. 4 SITE AND THE) <u>COMPANY VEHICLE)</u>	DOCKET NO. W-04254A-12-0205
IN THE MATTER OF THE APPLICATION OF) MONTEZUMA RIMROCK WATER COMPANY,) LLC FOR APPROVAL OF FINANCING FOR AN) <u>8,000-GALLON HYDRO-PNEUMATIC TANK.)</u>	DOCKET NO. W-04254A-12-0206
IN THE MATTER OF THE RATE APPLICATION) OF MONTEZUMA RIMROCK WATER) <u>COMPANY, LLC)</u>	DOCKET NO. W-04254A-12-0207
JOHN E. DOUGHERTY,) COMPLAINANT,) V.) MONTEZUMA RIMROCK WATER) COMPANY, LLC,) <u>RESPONDENT.)</u>	DOCKET NO. W-04254A-11-0323
IN THE MATTER OF THE APPLICATION OF) MONTEZUMA RIMROCK WATER) COMPANY, LLC FOR APPROVAL OF A) <u>RATE INCREASE.)</u>	DOCKET NO. W-04254-08-0361
IN THE MATTER OF THE APPLICATION OF) MONTEZUMA RIMROCK WATER) COMPANY, LLC FOR APPROVAL OF A) <u>RATE INCREASE.)</u>	DOCKET NO. W-04254-08-0362

RESPONSIVE
TESTIMONY
OF
GERALD BECKER
EXECUTIVE CONSULTANT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

JUNE 6, 2013

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**EXECUTIVE SUMMARY
MONTEZUMA RIMROCK COMPANY, LLC
DOCKET NO. W-04254A-12-0204, ET AL**

Montezuma Rimrock Water Company, LLC ("Montezuma" or "Company") is an Arizona public service corporation authorized to provide water service in a community near Rimrock, AZ. On May 31, 2012, the Company filed an application with the Arizona Corporation Commission ("Commission" or "ACC") to increase its rates for water service along with three financing applications. The Company filed several amendments to its rate application, and on April 12, 2013, the Company amended its financing applications. The Company's existing Certificate of Convenience and Necessity ("CC&N") for its service covers an area of approximately 3/8 square miles. Montezuma has approximately 205 water customers.

The Company proposes a revenue increase of \$76,800 or 75.83 percent over the Company proposed test year revenues of \$101,276 to \$178,076, in addition to surcharges proposed to cover certain legal expenses and to fund the replacement of storage tanks. The Company proposed revenue increase would produce an operating income of \$84,519 for a 162.52 percent rate of return on an original cost rate base ("OCRB") of \$52,005. The Company did not propose new rates for this increase in revenue.

Staff recommends a revenue increase of \$27,946 or 27.59 percent over the test year revenues of \$101,276 to \$129,222. The Staff recommended revenue increase would produce an operating income of \$2,770 for a 4.11 percent rate of return on a Staff adjusted OCRB of \$67,414. The Company proposes to use OCRB as its fair value rate base. In addition, Staff recommends the approval of two surcharges for \$18,541 of debt related to pressure tanks and \$108,000 in debt for additional storage tanks.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Gerald Becker. I am an Executive Consultant III employed by the Arizona
4 Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Gerald Becker who previously submitted direct testimony in this**
8 **case?**

9 A. Yes, I am.
10

11 **PURPOSE OF RESPONSIVE TESTIMONY**

12 **Q. What is the purpose of your responsive testimony in this proceeding?**

13 A. The purpose of my responsive testimony in this proceeding is to respond, on behalf of
14 Staff, to the testimony of Ms. Patricia Olsen on behalf of Montezuma Rimrock Water
15 Company, LLC ("Montezuma" or "Company") and to some concerns raised by Mr. John
16 Dougherty, Intervener.

17
18 **Q. Do you attempt to address every issue raised by the Company or others in direct**
19 **testimony?**

20 A. No. I limit my discussion to certain issues as outlined below. My silence on any
21 particular issue raised by others does not indicate that Staff agrees with the stated position
22 on the issue. I rely on my direct testimony unless modified by this responsive testimony.

PROPERTY UNDER CAPITAL LEASES

Q. Does the Company own property under lease arrangements?

A. Yes. As discussed more fully in Staff's direct testimony, the Company acquired an arsenic treatment system ("ATS"), a building housing the ATS and arsenic media, and financed these through leases with Nile River Leasing LLC ("Nile") and Financial Pacific LLC ("Financial Pacific").

Q. Please provide a brief differentiation between capital leases and operating leases?

A. A capital lease is essentially the same as a purchase whereby the property acquired is included entity's balance sheet. For ratemaking purposes, the assets on the balance sheet may be included as Utility Plant in Service and rate base. The amounts owed under a capital lease represent obligations or liabilities of the entity. Basically, the asset financed as a capital lease is reflected on the organization's balance sheet as if it had borrowed the money to purchase the asset.

Under an operating lease, the organization is renting the asset with an installment payment (which usually includes interest) with intentions to return the asset when the lease ends.

Q. Does Staff consider the Company's leases to be capital leases?

A. Yes, Staff agrees with the Company's and Intervener's position that these leases are capital leases.

Q. What is Staff recommending?

A. As discussed more fully in Staff's direct testimony, Staff recommends approval of the debt associated with the capital lease obligations.

PERFORMANCE BOND

Q. Is the Company required to maintain a surety bond?

A. Yes. On February 15, 2005, the Commission issued Decision No. 67583 which approved the transfer of the CC&N from its former owners and required the Company to post a surety bond for the purpose of ensuring financial ability to maintain operations. Discussion with Company indicates that the latest premium on the surety bond approximates \$4,500 per year.

Q. Does Staff believe that the surety bond is still necessary?

A. No. The transfer of the Company occurred in 2005 and the Company continues to provide service under present ownership. Staff believes the original purpose of the bond no longer exists.

Q. What is Staff recommending?

A. Staff recommends discontinuation of the surety bond requirement for the Company.

SUMMARY OF PROPOSED REVENUES

Q. Are there any clarifications to Staff's direct testimony?

A. Yes. In Staff's direct testimony, Staff stated that based on the Company's original application and filings on September 4, 2012 and September 14, 2012 and the Company's responses to Staff's Letter of Insufficiency, the Company indicates a proposed revenue increase of \$43,400, or 42.85 percent increase from \$101,276 to \$144,676. However, based on those filings, the Company did not propose new rates. Thus, Staff has previously stated that there would not be any reliable bill impacts based on rates proposed by the Company as of those dates.

1 The Company contacted Staff and referenced its subsequent filing on October 9, 2012 in
2 which the Company updated its proposed revenues to reflect a revenue increase of
3 \$76,800, or 75.83 percent increase from \$101,276 to \$178,076 The Company also
4 proposes increased rates to support its revised proposed increase, as discussed more fully
5 below.

6
7 **Q. Has Staff changed its recommended revenue?**

8 A. Yes, Staff has revised one of its adjustments. In its direct testimony, Staff recommends an
9 increase to salaries and wages of \$13,181 from \$ 0 to \$13,181, based upon a 3 year
10 average which included one year of zero wages due to cash constraints. Staff has
11 recalculated its normalized expense excluding the test year when no salaries and wages
12 were paid and now recommends an increase of \$19,772 from \$ 0 to \$19,772, based upon a
13 2 year average.

14
15 Staff also notes that the change in operating expenses causes an increase of \$824 in
16 working capital from \$12,988 in Staff's direct testimony to \$13,812 in this testimony. The
17 increase in working capital also causes a corresponding increase of \$824 in total rate base,
18 from \$66,590 in Staff's direct testimony to \$67,414 in this testimony.

19
20 Accordingly, Staff now recommends a revenue increase of \$27,946 or 27.59 percent over
21 the test year revenues of \$101,276 to \$129,222. Staff's recommended revenue increase
22 would produce an operating income of \$2,770 for a 4.11 percent rate of return on a Staff
23 adjusted OCRB of \$67,414. The Company proposes to use OCRB as its fair value rate
24 base.

25

1 In addition, Staff recommends the approval of two surcharges for \$18,541 of debt related
2 to pressure tanks and \$108,000 in debt for additional storage tanks. Staff bases its
3 recommended revenue on a cash flow analysis as shown on Schedule GWB-4 that
4 provides the Company adequate cash flow to pay its bills including the full amount due for
5 the ATS excluding media costs.

6
7 The impact of Staff's recommended rates on the typical residential bill is discussed below
8 in its rate design testimony.

9
10 Responsive schedules GWB-1 through GWB-7 are attached to reflect Staff position in its
11 responsive testimony discussed herein.

12
13 **RATE DESIGN**

14 **Q. Did Staff prepare schedules showing the present, Company-proposed, and Staff-**
15 **recommended rates and charges?**

16 A. Yes. Staff Schedule GWB-7 shows the present monthly minimum charges and
17 commodity rates, the Company's proposed monthly minimum charges and commodity
18 rates and Staff's recommended monthly minimum charges and commodity rates. The
19 schedule also shows the present, proposed and recommended service charges. A summary
20 of the present, Company-proposed and Staff-recommended rates is presented in the
21 following section.

22
23 **Q. Please provide an overview of the present rate design.**

24 A. The present monthly minimum charges are as follows: Residential 5/8" x 3/4" \$27.25,
25 3/4-inch \$40.88, 1 inch customers \$68.13. For all customers, the present commodity rate
26 has three tiers. Tier one is 1 gallon to 4,000 gallons at the commodity rate of \$1.50 per

1 1,000 gallons. Tier two is 4,001 gallons to 10,000 gallons at the commodity rate of \$2.50
2 per 1,000 gallons. Tier three is all gallons over 10,000 at the commodity rate of \$4.00 per
3 1,000 gallons.

4
5 **Q. Please provide an overview of the Company's proposed rate design.**

6 A. In its filing of October 9, 2012, the Company proposes monthly minimum charges as
7 follows: Residential 5/8" x 3/4" \$57.25, 3/4 -inch \$70.88, 1 inch customers \$98.13, 1 1/2
8 inch customers \$166.25, 2 inch customers \$238.00, 3 inch customers \$466.00, 4 inch
9 customers \$711.00, 6 inch customers \$1,392.50. For all customers, the proposed
10 commodity rate has three tiers. Tier one is 1 gallon to 4,000 gallons at the commodity rate
11 of \$2.00 per 1,000 gallons. Tier two is 4,001 gallons to 10,000 gallons at the commodity
12 rate of \$3.00 per 1,000 gallons. Tier three is all gallons over 10,000 at the commodity rate
13 of \$4.50 per 1,000 gallons.

14
15 **Q. Please provide an overview of Staff's recommended rate design.**

16 A. Staff's recommended rates and charges are presented in Schedule GWB-7: Residential
17 5/8" x 3/4" is \$30.00, 3/4-inch is \$45.00, 1-inch is \$75.00. For all customers, the
18 recommended commodity rates have three tiers. Tier one is 1 gallon to 3,000 gallons at
19 the commodity rate of \$2.15 per 1,000 gallons. Tier two is 3,001 gallons to 9,000 gallons
20 at the commodity rate of \$3.58 per 1,000 gallons. Tier three is all gallons over 9,000 at
21 the commodity rate of \$5.73 per 1,000 gallons.

22
23 **Q. What is the rate impact on a typical 5/8" x 3/4" meter residential customer?**

24 A. The median usage of residential 5/8 x 3/4 inch meter customers is 4,112 gallons per
25 month. Under the Company's proposed rates, the median residential 5/8" x 3/4" meter
26 customers would experience a \$32.06 or 95.6 percent increase in their monthly bill from

1 \$33.53 to \$65.59. Under Staff's recommended rates, the median residential 5/8" x 3/4"
2 meter customers would experience an \$8.60 or 25.6 percent increase in their monthly bill
3 from \$33.53 to \$42.13. See Schedule GWB-6.

4

5 Staff recommends approval of the Staff's recommended services charges as reflected in
6 responsive schedule GWB-7, Page 1 of 2.

7

8 **Q. Does this conclude your responsive testimony?**

9 **A. Yes, it does.**

SUMMARY OF FILING

WITHOUT FINANCING SURCHARGES

	-- Present Rates --		-- Proposed Rates --	
	Company as Amended*	Staff as Adjusted	Company as Amended*	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$97,305	\$97,305	\$174,105	\$125,251
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	3,971	3,971	3,971	3,971
Total Operating Revenue	\$101,276	\$101,276	\$178,076	\$129,222
Operating Expenses:				
Operation and Maintenance	\$72,801	\$114,178	\$72,801	\$114,178
Depreciation	7,367	9,126	7,367	9,126
Property & Other Taxes	13,389	3,098	13,389	3,098
Income Tax	0	50	0	50
Total Operating Expense	\$93,557	\$126,452	\$93,557	\$126,452
Operating Income/(Loss)	\$7,719	(\$25,176)	\$84,519	\$2,770
Rate Base O.C.L.D.	\$52,005	\$67,414	\$52,005	\$67,414
Rate of Return - O.C.L.D.	14.84%	N/M	162.52%	4.11%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	7.62%	-24.86%	47.46%	2.14%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. The Debt Service Coverage Ratio (DSC) represent the Company's ability to pay principal and interest before taxes and depreciation
 3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M Not Meaningful

RATE BASE

	Original Cost			
	Company	Adjustment		Staff
Plant in Service*	\$570,636	(\$91,286)	A	\$479,350
Less:				
Accum. Depreciation*	234,721	(4,922)	B	229,799
Net Plant	\$335,915	(\$86,364)		\$249,551
Less:				
Plant Advances	\$30,986	(\$30,986)	C	\$0
Customer Deposits	32,163	(12,018)	C	20,145
Total Advances	\$63,149	(\$43,004)		\$20,145
Contributions Gross	\$257,742	\$0		\$257,742
Less:				
Accumulated Amortization of CIAC	36,981	\$44,957	D	81,938
Net CIAC	\$220,761	(\$44,957)		\$175,804
Total Deductions	\$283,910	(\$87,961)		\$195,949
Plus:				
1/24 Power	\$0	\$230	E	\$230
1/8 Operation & Maint.	\$0	13,582	E	13,582
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$13,812		\$13,812
Rate Base	\$52,005	\$15,409		\$67,414

Explanation of Adjustment:

- A To remove reflect the net plant adjustments shown on page 2
- B To adjust accumulated depreciation to reflect amount per testimony.
- C To remove Advances not supported by the Company.
- C To adjust the balance in the Customer Deposits Account to reflect supporting documentation.
- D To update balance in Accumulated Amortization - CIAC balance.
- E To record adjustment for working capital.

PLANT ADJUSTMENT

	Company Exhibit*	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	\$0
303 Land & Land Rights	37,000	(37,000) A	\$0
304 Structures & Improvements	38,595	8,000 B	\$46,595
305 Collections & Impounds	1,700	(1,700)	\$0
307 Wells & Springs	84,265	(42,755) C	\$41,510
309 Water Mains	1,096	(868)	\$228
310 Power Generating Equipment	1,054	0	\$1,054
311 Pumping Equipment	63,263	(24,999) D	\$38,264
320 Water Treatment Equipment	7,386	(7,386) E	\$0
320.1 Water Treatment Plants	0	15,422 F	\$15,422
320.2 Solution Chemical Feeders	0	0	\$0
330 Distribution Reservoirs & Standpipes	31,028	(31,028) G	\$0
330.1 Storage Tanks	0	31,028 G	\$31,028
330.2 Pressure Tanks	0	0	\$0
331 Transmission & Distribution Mains	188,664	0	\$188,664
333 Services	11,415	0	\$11,415
334 Meters & Meter Installations	50,730	0	\$50,730
335 Hydrants	11,264	0	\$11,264
336 Backflow Prevention Devices	72	0	\$72
339 Other Plant and Misc. Equipment	11,061	0	\$11,061
340 Office Furniture & Equipment	3,009	0	\$3,009
340.1 Computers & Software	1,239		\$1,239
341 Transportation Equipment	11,180	0	\$11,180
343 Tools Shop & Garage Equipment	14,766	0	\$14,766
344 Laboratory Equipment	0	0	\$0
345 Power Operated Equipment	1,849	0	\$1,849
346 Communication Equipment	0	0	\$0
347 Miscellaneous Equipment	0	0	\$0
348 Other Tangible Plant	0	0	\$0
105 C.W.I.P.	0	0	\$0
TOTALS	\$570,636	(\$91,286)	\$479,350

Explanation of Adjustment
A - G See testimony

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company*	\$234,721
Accumulated Depreciation - Per Staff	<u>229,799</u>
Total Adjustment	<u><u>(\$4,922)</u></u>

To remove the Accumulated Depreciation to reflect amount per Staff Testimony

STATEMENT OF OPERATING INCOME

	Company as Amended*	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$97,305	\$0	\$97,305
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	3,971	0	3,971
Total Operating Revenue	\$101,276	\$0	\$101,276
Operating Expenses:			
601 Salaries and Wages	\$0	\$19,772 A	\$19,772
610 Purchased Water	686	(686) B	0
615 Purchased Power	6,064	(541) C	5,523
618 Chemicals	711	8,140 D	8,851
620 Repairs and Maintenance	8,047	0	8,047
621 Office Supplies & Expense	13,160	(2,757) E	10,403
630 Outside Services	15,890	5,811 F	21,701
635 Water Testing	1,000	800 G	1,800
641 Rents	7,983	0	7,983
650 Transportation Expenses	9,352	0	9,352
657 Insurance - General Liability	4,948	(2,526) H	2,422
659 Insurance - Health and Life	1,597	0	1,597
666 Regulatory Commission Expense - Rate Case	886	13,364 I	14,250
675 Miscellaneous Expense	2,477		2,477
403 Depreciation Expense	7,367	1,759 J	9,126
408 Taxes Other Than Income	10,291	(10,291) K	0
408.11 Property Taxes	3,098	0	3,098
409 Income Tax	0	50 L	50
Total Operating Expenses	\$93,557	\$32,895	\$126,452
OPERATING INCOME/(LOSS)	\$7,719	(\$32,895)	(\$25,176)

STAFF ADJUSTMENTS

A	SALARIES AND WAGES - Per Company	0	
	Per Staff	19,772	\$19,772
	To annualize Salaries and Wages		
B	PURCHASED WATER - Per Company	686	
	Per Staff	0	(686)
	To remove cost of water used by the Company's office		
C	PURCHASED POWER - Per Company	6,064	
	Per Staff	5,523	(\$541)
	To reflect the power expense supported by the Company		
D -	CHEMICALS - Per Company	\$711	
	Per Staff	8,851	\$8,140
	To reflect arsenic media expenses		
E	OFFICE SUPPLIES AND EXPENSE - Per Company	\$13,160	
	Per Staff	10,403	(\$2,757)
	To reflect amounts supported by the Company plus \$686 for Purchased Water, above.		
F	OUTSIDE SERVICES - Per Company	\$15,890	
	Per Staff	21,701	\$5,811
	To reflect amounts per Testimony		
G -	WATER TESTING - Per Company	\$1,000	
	Per Staff	1,800	\$800
	To reflect normalized annual water testing cost		
H	INSURANCE - GENERAL LIABILITY - Per Company	\$4,948	
	Per Staff	2,422	(\$2,526)
	To reflect amounts supported by the Company		

I REGULATORY COMMISSION EXPENSE - RATE CASE
- Per Company

Per Staff

\$886

14,250

\$13,364

To recognize a normalized level of the estimated rate case expense

J DEPRECIATION - Per Company*

Per Staff

\$7,367

9,126

\$1,759

To recalculate depreciation expense at Staff recommended rates
See Page 3 of 3

K TAXES OTHER THAN INCOME - Per Company

Per Staff

\$10,291

0

(\$10,291)

To remove sales tax collections that are pass through amounts

INCOME TAXES - Per Company

Per Staff

\$0

50

\$50

To reflect income taxes per recent ACC policy

STAFF ADJUSTMENTS (Cont.)

Pro Forma Annual Depreciation Expense:

Plant in Service	\$479,350
Less: Non Depreciable Plant	0
Fully Depreciated Plant	1,849
Depreciable Plant	<u>\$477,501</u>
Times: Staff Proposed Average Depreciation Rate	4.15%
Credit to Accumulated Depreciation	<u>\$19,829 *</u>
Less: Amort. of CIAC* @ 4.15%	<u>10,703</u>
Pro Forma Annual Depreciation Expense	<u>\$9,126</u>

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$257,742
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	<u>0</u>
Amortizable Contribution(s)	<u>\$257,742</u>
Times: Staff Proposed Amortization Rate	4.15%
Amortization of CIAC	<u>\$10,703</u>

CASH FLOW ANALYSIS

Line No.		Without Surcharges	Without Surcharges and with Arias	With Surcharges and with Arias Loan	With Arias Surcharges without WIFA Surcharges	With Surcharges and with Arias Loan
1	Cash Inflows					
2	Metered Water Revenue	\$125,251	\$125,251	\$125,251	\$125,251	\$125,251
3	Other Water Revenues	\$3,971	\$3,971	\$3,971	\$3,971	\$3,971
4	Surcharges					
5	Surcharge 1					
6	Surcharge 2					
7	Total Revenue	\$129,222	\$129,222	\$133,523	\$133,523	\$141,377
8	Cash Outflows plus Depreciation					
9	Operation and Maintenance	\$114,178	\$114,178	\$114,178	\$114,178	\$114,178
10	Depreciation	\$9,128	\$9,128	\$9,128	\$9,128	\$9,128
11	Property & Other Taxes	\$3,088	\$3,088	\$3,088	\$3,088	\$3,088
12	Income Tax	\$50	\$50	\$50	\$50	\$50
13	Total Expenses	\$126,452	\$126,452	\$126,452	\$126,452	\$126,452
14	Operating Income	\$2,770	\$2,770	\$7,071	\$7,071	\$14,925
15	Plus Depreciation Expense	\$9,128	\$9,128	\$9,128	\$9,128	\$9,128
16	Obligation Under Nile River Leasing, LLC	\$4,105	\$4,105	\$4,105	\$4,105	\$4,105
17	Obligation under Financial Pacific Leasing, LLC	\$7,791	\$7,791	\$7,791	\$7,791	\$7,791
18	Total amounts due under leases	\$11,897	\$11,897	\$11,897	\$11,897	\$11,897
19	Arias Loan Interest		\$1,023	\$1,023	\$1,023	\$1,023
20	Arias Loan Principal		\$3,278	\$3,278	\$3,278	\$3,278
21	Total Payment Arias Loan		\$4,301	\$4,301	\$4,301	\$4,301
22	Cash Flow from Operations before WIFA	\$ (0)	\$ (4,302)	\$ 0	\$ 0	\$ 7,853
23	Less: WIFA Loan Payment Interest				\$4,254	\$4,254
24	Less: WIFA Loan Payment Principal				\$3,599	\$3,599
25	Cash Flow from Operations before WIFA Reserve	\$ (0)	\$ (4,302)	\$ 0	\$ (7,854)	\$ (0)
26	WIFA Reserve (20% of Principal and Interest)				\$1,571	\$1,571
27	Cash Flow from Operations after WIFA Reserve	\$ (0)	\$ (4,302)	\$ 0	\$ (9,425)	\$ (1,571)
28	Operating Income	\$2,770	\$2,770	\$7,071	\$7,071	\$14,925
29	Less: Arias Loan Payment Interest		\$1,023	\$1,023	\$1,023	\$1,023
30	Less: WIFA Loan Payment Interest				\$4,254	\$4,254
31	Net Income	\$2,770	\$1,747	\$6,048	\$1,794	\$9,648
32	Rate of Return on Rate Base	4.11%	4.11%	4.11%	4.11%	4.11%
33	Operating Margin	2.14%	2.14%	5.30%	5.30%	10.56%

FINANCIAL ANALYSIS

	(A)	(B)	(C)	(D)	(E)	(F)
	Base Rates 12/31/2011	Pro forma With Atlas Loan Without Surcharge #1	Pro forma With Surcharge #1 and with Atlas Loan	Pro forma With Atlas Surcharge with WIFA loan without WIFA Surcharge	Pro forma Combined Includes Surcharges	Pro forma WIFA EX ARIAS
1 Operating Income	\$2,770	\$2,770	\$7,071	\$7,071	\$14,925	10,624
2 Depreciation & Amort.	9,126	9,126	9,126	9,126	9,126	9,126
3 Income Tax Expense	50	50	50	50	50	50
4						
5 Interest Expense	0	1,023	1,023	5,278	5,278	4,254
6 Repayment of Principal	0	3,278	3,278	6,877	6,877	3,599
7						
8 TIER						
9 [1*3] + [5]	N/M	2.76	6.98	1.35	2.84	2.51
10						
11 DSC						
12 [1*2*3] + [5*6]	N/M	2.78	3.78	1.34	1.98	2.52
13						
14						

References:

Column (A): Staff Recommended, No Surcharges
Column (B): Staff Recommended with Atlas Loan, No Surcharge
Column (C): Staff Recommended with Atlas Loan and Surcharge #1
Column (D): Staff Recommended with Atlas & WIFA Loan and Surcharge #1, only
Column (E): Staff Recommended with Atlas & WIFA Loan and both Surcharges
Column (F): Staff Recommended with Atlas & WIFA Loan and both Surcharges

TYPICAL BILL ANALYSIS

5/8 x 3/4 Inch Meter

WITHOUT REFLECTION OF THE (LOANS) SURCHARGES IN CURRENT RATES

Average Number of Customers: 185

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	5,192	\$36.23	\$68.83	\$32.60	90.0%
Median Usage	4,112	\$33.53	\$65.59	\$32.06	95.6%
<u>Staff Recommend</u>					
Average Usage	5,192	\$36.23	\$46.63	\$10.40	28.7%
Median Usage	4,112	\$33.53	\$42.13	\$8.60	25.6%

Present & Proposed Rates (Without WIFA Loan Surcharges and Taxes)
5/8 x 3/4 Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$27.25	\$57.25	110.1%	\$30.00	10.1%
1,000	28.75	59.25	106.1%	32.50	13.0%
2,000	30.25	61.25	102.5%	35.00	15.7%
3,000	31.75	63.25	99.2%	37.50	18.1%
4,000	33.25	65.25	96.2%	41.67	25.3%
5,000	35.75	68.25	90.9%	45.83	28.2%
6,000	38.25	71.25	86.3%	50.00	30.7%
7,000	40.75	74.25	82.2%	54.17	32.9%
8,000	43.25	77.25	78.6%	58.33	34.9%
9,000	45.75	80.25	75.4%	62.50	36.6%
10,000	48.25	83.25	72.5%	69.17	43.4%
15,000	68.25	105.75	54.9%	102.50	50.2%
20,000	88.25	128.25	45.3%	135.83	53.9%
25,000	108.25	150.75	39.3%	169.17	56.3%
50,000	208.25	263.25	26.4%	335.83	61.3%
75,000	308.25	375.75	21.9%	502.50	63.0%
100,000	408.25	488.25	19.6%	669.17	63.9%
125,000	508.25	600.75	18.2%	835.83	64.5%
150,000	608.25	713.25	17.3%	1,002.50	64.8%
175,000	708.25	825.75	16.6%	1,169.17	65.1%
200,000	808.25	938.25	16.1%	1,335.83	65.3%

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 27.25	\$ 57.25	\$ 30.00
3/4 Inch	40.88	70.88	45.00
1 Inch	68.13	98.13	75.00
1 1/2 Inch	N/A	168.25	150.00
2 Inch	N/A	238.00	240.00
3 Inch	N/A	466.00	480.00
4 Inch	N/A	711.00	750.00
6 Inch	N/A	1,392.50	1,500.00
Commodity Charge - Per 1,000 Gallons			
<u>5/8" x 3/4" Meter and 3/4" Meter (All)</u>			
First 4,000 gallons	\$ 1.50	\$ 2.00	N/A
4,001 to 10,000 gallons	\$ 2.50	\$ 3.00	N/A
Over 10,000 gallons	\$ 4.00	\$ 4.50	N/A
First 3,000 gallons	N/A	N/A	\$ 2.50
3,001 to 9,000 gallons	N/A	N/A	\$ 4.17
Over 9,000 gallons	N/A	N/A	\$ 6.67
Other Service Charges			
Establishment	\$ 40.00	\$ 40.00	\$ 40.00
Establishment (After Hours)	\$ 60.00	\$ 60.00	N/A
Reconnection (Delinquent)	\$ 50.00	\$ 50.00	\$ 50.00
Service Charge - After hours at customer request	N/A	N/A	\$ 35.00
Meter Test (If Correct)	\$ 30.00	\$ 30.00	\$ 30.00
Deposit Requirement	*	\$ 60.00	*
Deposit Interest	*	Zero	*
Re-establishment (Within 12 months)	**	**	**
NSF Check	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment (Per Month)	1.50%	1.50%	1.50%
Meter Re-read	\$ 15.00	\$ 15.00	\$ 15.00
Late Charge (Per Month)	***	***	***
Sprinkler rate	****	****	****

* Per Commission Rule R14-2-403.B.

** Per Rule R14-2-403.D. Monthly minimum times the number of months off system.

*** 1.5% of unpaid balance after 15 days

**** 1% of monthly minimum for a comparable meter connection, but no less than \$5.00 per month. The service line for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Service and Meter Installation Charges

Service Size	Total Present Charge	Present & Proposed Service Line Charge	Present & Proposed Meter Installation	Total Recommended Charge	Recommended Service Line Charge	Recommended Meter Installation Charge
5/8 x 3/4 Inch - Same side of road	\$ 500.00	\$ 370.00	\$ 130.00	\$ 500.00	\$ 370.00	\$ 130.00
5/8 x 3/4 Inch - Other side of road	\$ 800.00	\$ 670.00	\$ 130.00	\$ 800.00	\$ 670.00	\$ 130.00
3/4 Inch - Same side of road	\$ 550.00	\$ 370.00	\$ 180.00	\$ 550.00	\$ 370.00	\$ 180.00
3/4 Inch - Other side of road	\$ 875.00	\$ 695.00	\$ 180.00	\$ 875.00	\$ 695.00	\$ 180.00
1 Inch - Same side of road	\$ 625.00	\$ 400.00	\$ 225.00	\$ 625.00	\$ 400.00	\$ 225.00
1 Inch - Other side of road	\$ 1,000.00	\$ 775.00	\$ 225.00	\$ 1,000.00	\$ 775.00	\$ 225.00
1 1/2 Inch - Same side of road	\$ 900.00	\$ 450.00	\$ 450.00	\$ 900.00	\$ 450.00	\$ 450.00
1 1/2 Inch - Other side of road	\$ 1,425.00	\$ 975.00	\$ 450.00	\$ 1,425.00	\$ 975.00	\$ 450.00
2 Inch Turbo - Same side of road	\$ 1,450.00	\$ 550.00	\$ 900.00	\$ 1,450.00	\$ 550.00	\$ 900.00
2 Inch Turbo - Other side of road	\$ 2,350.00	\$ 1,450.00	\$ 900.00	\$ 2,350.00	\$ 1,450.00	\$ 900.00
2 Inch Compound - Same side of road	\$ 2,125.00	\$ 550.00	\$ 1,575.00	\$ 2,125.00	\$ 550.00	\$ 1,575.00
2 Inch Compound - Other side of road	\$ 3,400.00	\$ 1,825.00	\$ 1,575.00	\$ 3,400.00	\$ 1,825.00	\$ 1,575.00
3 Inch Turbo - Same side of road	\$ 1,975.00	\$ 765.00	\$ 1,210.00	\$ 1,975.00	\$ 765.00	\$ 1,210.00
3 Inch Turbo - Other side of road	\$ 3,175.00	\$ 1,965.00	\$ 1,210.00	\$ 3,175.00	\$ 1,965.00	\$ 1,210.00
3 Inch Compound - Same side of road	\$ 2,750.00	\$ 795.00	\$ 1,955.00	\$ 2,750.00	\$ 795.00	\$ 1,955.00
3 Inch Compound - Other side of road	\$ 4,375.00	\$ 2,420.00	\$ 1,955.00	\$ 4,375.00	\$ 2,420.00	\$ 1,955.00
4 Inch Turbo - Same side of road	\$ 3,175.00	\$ 1,055.00	\$ 2,120.00	\$ 3,175.00	\$ 1,055.00	\$ 2,120.00
4 Inch Turbo - Other side of road	\$ 5,100.00	\$ 2,980.00	\$ 2,120.00	\$ 5,100.00	\$ 2,980.00	\$ 2,120.00
4 Inch Compound - Same side of road	\$ 4,025.00	\$ 1,095.00	\$ 2,930.00	\$ 4,025.00	\$ 1,095.00	\$ 2,930.00
4 Inch Compound - Other side of road	\$ 6,425.00	\$ 3,495.00	\$ 2,930.00	\$ 6,425.00	\$ 3,495.00	\$ 2,930.00
6 Inch Turbo - Same side of road	\$ 6,025.00	\$ 1,600.00	\$ 4,425.00	\$ 6,025.00	\$ 1,600.00	\$ 4,425.00
6 Inch Turbo - Other side of road	\$ 9,625.00	\$ 5,200.00	\$ 4,425.00	\$ 9,625.00	\$ 5,200.00	\$ 4,425.00
6 Inch Compound - Same side of road	\$ 7,850.00	\$ 1,730.00	\$ 6,120.00	\$ 7,850.00	\$ 1,730.00	\$ 6,120.00
6 Inch Compound - Other side of road	\$ 12,550.00	\$ 6,430.00	\$ 6,120.00	\$ 12,550.00	\$ 6,430.00	\$ 6,120.00

There are no proposed or recommended changes to
Service Line and Meter Installation Charges